

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 NSCE-00 SSO-00

USIE-00 INRE-00 SAM-01 SAJ-01 /087 W

----- 072168

O R 281901Z JAN 76

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 4428

INFO AMEMBASSY LISBON

AMCONSUL BARCELONA

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E.O. 11652: N/A

TAGS: ECON, ELAB, SP

SUBJ: PRIME MINISTER PUTS BETTER FACE ON ECONOMIC POLICY

REF: MADRID 9089

1. SUMMARY: IN JANUARY 28 POLICY STATEMENT, PRIME MINISTER CITED FULL EMPLOYMENT AND EQUITABLE DISTRIBUTION OF ECONOMIC BURDEN AS TOP GOVERNMENT PRIORITIES AND PROMISED LEGISLATION TO REFORM TAX STRUCTURE. THIS POSITION APPROACH MAY HELP DAMPEN CRITICISM OF GOVERNMENT'S ATTITUDE TOWARD ECONOMIC ISSUES WHICH HAS GROWN SINCE FINANCE MINISTER'S SPEECH A MONTH AGO. FINANCE MINISTRY IS NOW DEVELOPING COMPREHENSIVE ECONOMIC PROGRAM WHICH, WHEN ANNOUNCED, WILL PROVIDE CLEARER PICTURE OF OVERALL GOS ECONOMIC POLICY. END SUMMARY.

2. ECONOMIC CONTENT OF PRIME MINISTER'S JANUARY 28 POLICY STATEMENT ATTEMPT TO CAST A MORE BENEVOLENT LIGHT ON GOVERNMENT ECONOMIC POLICY WHICH HAS BEEN SUBJECTED TO WIDE CRITICISM
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OVER PAST MONTHS. ARIAS SAID TWO MAIN PRIORITIES OF GOVERNMENT

WOULD BE FULL EMPLOYMENT AND A MORE JUST DISTRIBUTION OF THE ECONOMIC BURDEN. TO HELP ACHIEVE THESE GOALS, HE SAID, GOVERNMENT WOULD INTRODUCE DECREE LAWS WITHIN NEXT THREE MONTHS TO REFORM INCOME TAX STRUCTURE AND TO LIGHTEN UP ON TAX EVASION.

3. THESE STATEMENTS BY THE PRIME MINISTER SEEM DESIGNED TO STILL SOME OF THE PUBLIC CRITICISM OF GOVERNMENT ECONOMIC POLICY WHICH HAS CONTINUED UNABATED SINCE DEC 29 ECONOMIC POLICY SPEECH OF FINANCE MINISTER VILLAR MIR (REFTEL). EDITORIALS, WHETHER IN DAILY PRESS OR IN WEEKLY POLITICAL-ECONOMIC JOURNALS, HAVE ALL BEEN HIGHLY CRITICAL OF VILLAR MIR'S CHARGE THAT SPAIN HAS BEEN LIVING BEYOND ITS MEANS FOR PAST TWO YEARS AND THAT EXCESSIVELY LIBERAL WAGE SETTLEMENTS HAVE PROVIDED THE MAIN FUEL FOR SPAIN'S HIGH LEVEL OF INFLATION.

4. THE MAIN ARGUMENTS AGAINST VILLAR MIR'S DIAGNOSIS AND PRESCRIPTIONS WERE SUMMED UP IN PUBLISHED STATEMENT BY SANTIAGO ALVAREZ ABELLAN, PRESIDENT OF THE NATIONAL WORKERS' COUNCIL (HIGHEST LABOR BODY WITHIN THE NATIONAL SYNDICALIST ORGANIZATION). ALVAREZ ABELLAN CLAIMED THAT GOVERNMENT PRICE INDEXES HAVE BEEN DISCREDITED AND ARE NOT VALID FOR COMPARISON WITH WAGES. HE DENIED THAT WAGE INCREASES HAVE BEEN THE PRINCIPAL CAUSE OF INFLATION, CLAIMING THAT WAGES ARE ONLY 20 PERCENT OR LESS OF TOTAL PRODUCTION COSTS AND ARE ONLY ONE OF A MULTITUDE OF FACTORS PROVIDING INFLATIONARY PRESSURE. HE CLAIMED THAT LOWER PROFIT MARGINS AND DECAPITALIZATION BY FIRMS WERE THE RESULT OF REDUCED DEMAND AND INEFFICIENCY RATHER THAN HIGHER PERSONNEL COSTS. HE CHALLENGED THE NOTION THAT WAGE INCREASES SHOULD BE GEARED TO INCREASES IN THE COST OF LIVING SINCE TIME LAGS WILL ALWAYS MEAN A DETERIORATION IN WORKERS' PURCHASING POWER.

FINALLY, HE CLAIMED THAT SOCIAL JUSTICE DEMANDS STRUCTURAL REFORMS RATHER THAN ATTEMPTING TO ACHIEVE FULL EMPLOYMENT BY RESTRICTING PURCHASING POWER OF THE WORKERS. ALVAREZ ABELLAN CHARGED THE FINANCE MINISTER WITH DELIBERATELY IGNORING THE PRIVILEGED POSITION OF SPANISH FIRMS: THEIR HIGH SALARIED DIRECTORS, THEIR PROTECTION FROM COMPETITION, LIMITED OFFICIAL USE

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THEIR RESERVES AND REINVESTED EARNINGS. HE CALLED FOR STRUCTURAL REFORM OF INDUSTRY, AGRICULTURE AND MARKETING, FISCAL REFORM, AND MORE ENERGETIC PUBLIC INVESTMENT TO STIMULATE DEVELOPMENT.

5. COMMENT: WHILE SPANISH STATISTICS HAVE THEIR SHORTCOMINGS, THERE IS NO DOUBT THAT WAGE SETTLEMENTS DURING THE PAST YEAR OF 25 TO 30 PERCENT HAVE BEEN ONE IMPORTANT FACTOR CONTRIBUTING TO INFLATIONARY PRESSURE. HOWEVER, THE INCREASED

COST OF MACHINERY, ENERGY, AND OTHER RAW MATERIALS HAVE ALL BEEN INFLATIONARY ELEMENTS. FOR THE FINANCE MINISTER TO GIVE THE IMPRESSION ON THAT ONLY THE WORKING MAN SHOULD TIGHTEN HIS BELT WAS POLITICALLY INEPT. THE EMBASSY HAS BEEN INFORMED THAT NEITHER THE REST OF THE CABINET NOR OFFICIALS WITH THE FINANCE MINISTRY WERE INFORMED IN ADVANCE OF VILLAR MIR'S PRESENTATION, AND THAT THEY ARE DISTURBED BY HIS APPARENT POLITICAL INSENSITIVITY. PRIME MINISTER ARIAS NAVARRO'S JANUARY 28 POLICY STATEMENT ATTEMPTED TO PUT A BETTER FACE ON THE GOVERNMENT'S INTENTIONS IN THE ECONOMIC FIELD AND TO SATISFY THE WIDE-FELT NEED FOR SOME SORT OF TAX REFORM. HIS ONLY MENTION OF WAGES WAS IN REFERENCE TO THE NEED FOR FIRM AND JUST POLICIES WITH REGARD TO BOTH WAGES AND PROFITS. VILLAR MIR, WHO REPORTEDLY HAS THE PRIME MINISTER'S CONFIDENCE, INFORMED THE EMBASSY OVER THE PAST FEW DAYS THAT HE IS CONVINCED HIS POLICIES ARE CORRECT TO COPE WITH WHAT HE CONSIDERS THE TOP PRIORITY PROBLEMS OF INFLATION AND BALANCE OF PAYMENTS. THE MINISTRY OF FINANCE IS NOW PUTTING THE FINAL TOUCHES ON A MORE COMPREHENSIVE ECONOMIC POLICY STATEMENT WHICH VILLAR MIR IS EXPECTED TO ANNOUNCE IN VERY NEAR FUTURE. IT PRESUMABLY WILL FILL THE GAPS LEFT BY BOTH ARIAS' SPEECH TODAY AND VILLAR MIR'S DECEMBER PRONOUNCEMENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, PRESS COMMENTS, SPEECHES, FAIR EMPLOYMENT PRACTICES, ECONOMIC PROGRAMS, TAX REFORMS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MADRID00680
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760032-0987
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760114/aaaaaluc.tel
Line Count: 139
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 MADRID 9089
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 04 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 MAY 2004 by ellisoob>; APPROVED <17 MAY 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRIME MINISTER PUTS BETTER FACE ON ECONOMIC POLICY
TAGS: ECON, ELAB, SP, (VILLAR MIR, JUAN MIGUEL)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006